

"Bezeq" The Israel Telecommunication Corp., Ltd.



Event Transcript

Q4 & FY 2022 Financial Results

Tuesday, March 14th, 2023, 15:00 Israel Time

DISCLAIMER

This document includes a transcript of the conference call held on the above date regarding the Company's financial results for the second quarter of 2020, following the publication of the Company's financial statements at that date, as well as the publication of the Company's investor presentation filed under the Israeli Securities Law 1968 ("Securities Law").

This document includes statements made at that conference call and accordingly contains only partial information regarding the Company's financial results and the Company's periodic reports published under the Securities Law. The reports can be accessed at the Israeli Securities Authority's website, www.magna.isa.gov.il. A review of this transcript and/or the aforementioned investor presentation published by the Company is not a substitute for a review of the detailed reports of the Company under the Securities Law and is not meant to replace or qualify the full reports. The Company is not responsible for the accuracy or completeness of the information contained in this document. This transcript does not constitute an offer or invitation to purchase or subscribe for any securities of the Company, and neither this transcript nor anything contained herein shall form the basis of, or be relied upon in connection with any contract or commitment whatsoever.

Q4 & FY 2022 Financial Results

Tobi Fischbein: Welcome everyone and thank you for joining us on Bezeq's 2022 fourth-quarter and full year earnings call. I am Tobi Fischbein, Bezeq Group CFO.

With us from the Bezeq Group's senior management team are Mr. Gil Sharon, Bezeq's Chairman, Mr. Ran Guron, Bezeq's CEO, and Mr. Ilan Sigal, CEO of Pelephone and yes.

Before we start, I would like to draw your attention to the Safe Harbor statement on Slide 2 of our 2022 investor presentation, which also applies to any statement made during today's call. We would like to inform you that this event is being recorded. After presenting our results, you can ask questions by raising your hand virtually. Let me now turn the call over to our Chairman, Mr. Gil Sharon for his opening remarks. After his introduction, I will continue the presentation of our group financial highlights, followed by Ran, who will discuss Bezeq Fixed Line results, and Ilan, who will conclude with the results of our subsidiaries.

Gil Sharon: Thank you, Tobi. Let's start on **slide 3**. 2022 was a strong year for the Bezeq Group. Our focus on successfully executing our growth strategy is shown in the robust financial results and growth recorded in the group's core activities with 3% growth in Bezeq fixed line and 5% in Pelephone. We have accelerated fiber take-up, posted growth and significantly improved profitability in Pelephone and launched a TV + Bezeq fiber bundle in yes. All was achieved while strengthening our financial profile and reducing our debt by over half a billion shekels. In light of the strong financial results and debt reduction, the board of directors decided to upgrade the dividend policy to 60% of net profit and recommended a distribution of 246 million shekels. In addition, the Company will strive to upgrade the policy to 70% of net profit, subject to maintaining the Company's credit rating in the AA group.

Turning to the **next slide**, we show the group's technological and business roadmap and progress made so far. In Bezeq Fixed-Line, we launched the fiber project at the end of 2020. Today we have over 1.6 million homes passed and a total take-up of 332 thousand subscribers on our network, resulting in a 15% increase in broadband ARPU since 2020. Our target is to deploy to 2.7 million homes by 2027 and continue our accelerated take up and ARPU growth. In Pelephone, we won frequencies in the 5G tender in 2020 and today 32% of our subscribers are on 5G plans helping to increase service revenues by 13% since 2020. Our target is to have 80% of our customers on 5G plans by 2027. In yes, we began the migration from satellite to IP and today, 60% of our customers are IPTV customers resulting in a 39% decrease in churn since 2020.

We are on target to reach our goal of becoming the first satellite company in the world to fully migrate to IP by 2026, which will lead to significant cost reduction.

Turning to the **next slide**, we are proud to report strong results for 2022. Revenues grew 1.9% to 9 billion shekels. Adjusted EBITDA increased 0.7% to 3.74 billion shekels and Adjusted Net Profit grew 3.6% to 1.2 billion shekels. In addition, we posted growth in subscribers and ARPU in most of the business sectors as shown on the **next slide**. Total fiber take-up reached 335 thousand as of today, including retail fiber net adds of 133 thousand in 2022. Broadband ARPU was up 7.5% to 114 shekel on average for the year and 117 shekels in Q4 2022. In Pelephone, 5G subscribers reached 813 thousand or 32% of total subscribers as of today. Cellular ARPU was up 5.6% to 57 shekel and cellular service revenues grew 9.1% to 1.8 billion shekel. In yes, subscribers grew 2.8% to 579 thousand with 60% IP subscribers.

Now let me turn the call over to Tobi to discuss the financial results in more detail.

Tobi Fischbein: Thank you, Gil. Turning to **slide 7**, revenues increased for the second consecutive year due to growth of 5% in Pelephone and 3% in Bezeq Fixed-Line. Adjusted EBITDA increased by 0.7% year-over-year to 3.74 billion shekels and Adjusted Net Profit rose 3.6% year-over-year to 1.2 billion shekels for the full year, mainly due to increased profitability in Pelephone. Double-digit growth in free cash flow was mainly due to timing differences and improved working capital.

Moving onto the **next slide**, revenues in the fourth quarter of 2022 amounted to 2.24 billion shekels, down 0.6% from a year ago, mainly due to lower handsets sold at Pelephone. Adjusted EBITDA decreased by 0.2% year-over-year to 907 million shekels. Adjusted net profit declined 2.4% year-over-year to 250 million shekels in Q4. Free Cash Flow for the quarter was much higher for the fourth quarter due to the impact of timing differences in working capital in all group companies.

The **next slide** shows the Group's key operational metrics for the past five quarters. On the Subscribers side, we saw continued increases in TV and retail internet subscribers while we experienced a quarter-over-quarter decrease in cellular subscribers due to a removal of 96k prepaid subscribers. On ARPU, retail Internet grew 7.3% year-over-year, and cellular ARPU increased 3.6% year-over-year. Telephony ARPU was down due to the MOC tariff reduction implemented in Q2 2022 and TV ARPU declined due to the change in TV subscriber mix.

Moving to the **next slide**, let me again emphasize Bezeq's financial strength and success in debt reduction. As Gil previously said, by the end of 2022, our net debt decreased by over 500 million shekels, or 8% year-over-year, allowing for a further

improvement in our leverage ratios. Looking back to 2018, net debt had decreased by over 3.2 billion shekels, or 37%.

Moving on to the **next slide** – We would like to share the 2023 guidance and our mid-term ambitions. In terms of the outlook for 2023, we expect 2023 Adjusted EBITDA of 3.8 billion shekels, Adjusted Net Profit of 1.2 billion shekels, and Capex of 1.75 billion shekels. We are also now expecting to reach 2 million households by the end of the 2023 with our fiber network. Additionally, we are also sharing our mid-term ambitions. We expect Adjusted EBITDA CAGR of 1% with margins between 41%-43% and mid single-digit for free cash flow CAGR. CapEx and CapEx/Sales are expected to remain stable until 2025 and decrease gradually thereafter, and we are targeting 2.7 million households for fiber deployment in the medium term. As Gil mentioned, we aim to upgrade the dividend policy to 70% in the mid-term, subject to maintaining the Company's credit rating in the AA group.

Turning to **slide 12**, in light of the strong financial results and debt reduction, the board of directors decided to upgrade our dividend policy to 60% of net profit and recommended a distribution of 246 million shekels. We expect an increase in total dividends to be distributed during 2023 as compared to those paid in 2022. Now Ran will share the results from our Fixed Line operations.

Ran Guron: Thank you, Tobi. We posted another strong year of results, with massive deployment of fiber throughout the year. Turning to **slide 13** – we present a summary of our progress in 2022 with revenue growth driven by increased focus and accelerated fiber take-up resulting in double digit broadband revenue growth as well as continued business sector growth.

Turning to **the next two slides**, we posted a 3% increase in overall revenues, despite the MOC decrease in telephony rates in the second quarter of 2022, which impacted Adjusted EBITDA, among other factors. There was a decrease in Adjusted Net Profit mainly due to an increase in depreciation expenses related to the fiber deployment as well as other infrastructure projects, and free cash flow decreased for the year due to payments received for the sale of real estate in 2021.

Slide 16 shows our achievements for the year in terms of broadband Internet that recorded revenues of 1.8 billion shekels, representing a 10.2% increase year-over-year. Retail ARPU increased by 7.5% to reach an average of 114 shekels, and retail broadband lines grew 0.9%.

On the **next slide**, we present the fourth quarter broadband Internet results, which follow the trends for the full year of 2022, with revenue growth of 10.6% to reach 460

million shekels, 0.9% growth in retail broadband lines, and retail ARPU grew 7.3% year-over-year to reach 117 shekels, positively impacted by fiber customer take up.

Moving on to fiber optics on the **next slide**. Our fiber network has reached 235 thousand retail fiber subscribers and 97 thousand wholesale fiber subscribers as of today. We posted record retail fiber net adds of 41 thousand subscribers in Q4 2022, continuing the accelerated trend which began in Q3 2022. On the wholesale side, following the IRU agreement with Partner, we are showing rapid growth beginning in Q1 2023, with 28 thousand new wholesale subscribers as of today, twice the average take-up in previous quarters.

Turning to the **next slide**, we have reached 1.6 million homes passed today through our fiber deployment and expect to reach 2 million homes by the end of the year. Customers with the Be Router continue to grow and were 764 thousand by the end of the quarter, while broadband speed increased 70% year-over-year to reach 220 Mbps. We continue our focus on accelerating fiber deployment and take-up, which reached over 20% penetration as of today.

As shown in the **next slide**, the business sector continued to gain momentum in 2022 with a 4.1% revenue increase in transmission and data, as well as 4.1% year-over-year growth in cloud and digital services. Other revenues grew 14.2% year-over-year to 275 million shekels due to growth in infrastructure projects. Telephony revenues declined mainly due to MOC tariff reductions beginning in Q2-22. **Slide 21** shows Q4 results, which largely reflect the trends for the full year.

Moving forward to the **next slide**, we detailed our expenses for 2022. Salaries increased 3.9% due to employee recruitment related to the fiber project. Operating expenses were up due to higher subcontractor and equipment expenses also related to the fiber project, and the increase in depreciation expenses were driven by CapEx increases over previous periods. Our Q4 expenses are detailed on the **next slide**. The rise in other expenses was mainly due to capital gains from the sale of real estate in the corresponding quarter of 2021.

In summary, our growth in broadband has offset the negative impacts caused by the MOC decrease in telephony tariffs, and the fiber deployment combined with accelerated fiber take-up and continued success in router and wi-fi enhancers reflects our potential for continued growth in the residential market. Our strong results prove our strategy, and we continue to be very confident in our growth trajectory moving forward. With that, I'll now turn the call to Ilan to talk about Bezeq's subsidiaries.

Ilan Sigal: Thanks, Ran. It is indeed exciting here at Bezeq with the results we accomplished. In the **next two slides**, we can see that for the full year, Pelephone reached record revenues since 2018 with a 5% increase year-over-year, Adjusted EBITDA grew 20% to 761 million shekels, and Adjusted Net Profit increased 155% to 193 million shekels. Free Cash Flow grew to 351 million for the year, compared to negative 47 million for 2021. We added 53 thousand postpaid subscribers in the year and our 5G subscriber plans grew to 813 thousand, or 32% of total subscribers.

The Q4 results for Pelephone are shown **on slide 27**, and largely reflect the full year trends, with Adjusted EBITDA and Adjusted Net Profit growth of 9.5% and 63.3%, respectively, largely due to a recovery in roaming revenues, an increase in the number of subscribers, and growth in 5G subscriber plans. Total Revenue for Pelephone in Q4 was down 1.7% to 592 million shekels, due to a decrease in the number of handsets sold. Free Cash Flow improved this quarter due to timing differences in working capital related to employee sanctions in the fourth quarter of 2021.

The graph displayed on the **next slide** shows the turnaround in service revenues in the last two years. The year-over-year increase in service revenues was driven by a recovery in roaming revenues and growth in subscribers and 5G subscriber plans.

The **following slide** shows key operational metrics for the quarter. Pelephone's ARPU rose 3.6% year-over-year in Q4 2022, while total subscribers increased by 0.2% year-over-year to reach 2.6 million, impacted by the removal of 96 thousand prepaid customers who did not meet the definition of an active subscriber.

Moving to the **next two slides**, yes saw significant progress in 2022 and continues to be the largest Israel IPTV operator with 344 thousand customers as of today. Net subscribers grew by 16 thousand, the highest yearly subscriber growth since 2014. Revenues grew for the first time since 2014 by 0.6% to reach 1.28 billion shekels, and yes' met significant milestones this year with the launch of the bundle combining TV and Bezeq fiber, and new agreements with leading content providers. The decline in Adjusted EBITDA and Adjusted Net Profit were mainly due to an increase in content and salary expenses as well as the launch of the TV and fiber bundle.

Looking at the Q4 financial results in the **next slide**, the results reflect the trends for the full year, and we see that revenues grew 2.5% year-over-year mainly due to sales of content.

The **next slide** shows yes' key operational metrics. Net subscribers grew for the eighth consecutive quarter by 2.8% year-over-year to 579 thousand, and 60% of yes subscribers are now watching IPTV as we move toward our goal of 100% IPTV by

2026. The 4.7% decrease in ARPU is due to the change in subscriber mix with growth in STINGTV subscribers, which grew to 107 thousand as of today. Now let me now turn the call back to Tobi to discuss Bezeq International and for concluding remarks.

Tobi Fischbein: Turning to the **next slide** – Bezeq International in 2022 achieved strong results, even with the reduction in ISP consumer activity due to the regulatory removal of the Internet infrastructure and ISP separation as of April 2022. The focus on expansion of ICT activities are showing results and, looking forward, the implementation of the labor union agreement for voluntary early retirement of employees is expected to save significant expenses.

In the **next slide**, revenues grew by 0.2% to reach 1.2 billion shekels following our acquisition of CloudEdge. Adjusted Net Profit increased by 156.3% mainly due to lower depreciation and amortization expenses and free cash flow was higher due to timing differences in working capital due to employee sanctions in 2021.

On **the next slide**, Bezeq International's results for Q4 reflect the 2022 trends, with a 2.7% decline in revenue and 12.0% decline in Adjusted EBITDA due to the previously mentioned reduction in customer ISP activity.

Turning to our **last slide**, Bezeq's Q4 and full year performance show record results and growth in numerous metrics, once again testifying that we are on the right track with our strategy. Moving forward, we aim to continue our growth momentum and enhance profitability while maintaining financial strength for the benefit of all our stakeholders.

I would also like to mention that we will attend two conferences over the next few weeks to further engage with investors and analysts. The Citi Technology, Media, and Telecom Conference in London tomorrow, March 15th and 16th. We will also attend the Jefferies Pan European Mid Cap conference in London on March 28 and 29th. We look forward to meeting you there.

With that, I will open the Q&A session. If you would like to ask a question, please raise your hand virtually using the "Raise Hand" button in the "Participants" tab. In the mobile app, you can raise your hand by tapping the "Raise Hand" option in the "More" tab. As you hear your name, please be sure to unmute your microphone, and ask your question. For the benefit of the people in the room, please introduce yourself and share the name of the company you represent. We will address questions as we see the hands raised. If you later change your mind about raising your hand, you can lower it by clicking "Lower Hand." I will now pause to poll for questions.

Tobi Fischbein: We have our first question from Tavy Rosner. Hi, Tavy.

Tavy Rosner (Barclays): Hi. Thanks for taking my question. I have three short questions, please. The first one is on Bezeq Fixed. You talked about the increasing operating expense linked to contractor and deployment of fiber. Looking ahead as you're tackling higher penetration rates, are you comfortable with that level of run rate OpEx? Or should we expect higher expenses down the road?

Tobi Fischbein: Thanks, Tavy. We obviously are growing and experiencing very strong take-up momentum in Bezeq Fixed-line with our fiber penetration. As you would expect, expenses are going up in parallel. However, as we gain more experience in making those connections and installations in the customer premises, we expect to become more efficient in the way we expend the money when we go about this growth. So, we would expect to continue our growth momentum as explained before, and have, I would say, better control of our costs along the way.

Tavy Rosner (Barclays): Okay, that's helpful. And then, moving to Pelephone. There's been a significant increase in adjusted EBIDTA, that you attributed to the move to 5G. Can you remind us what's the increase in ARPU between 4G subscribers and 5G subscribers? What kind of uplift do you get when someone migrates from one to the other?

Tobi Fischbein: So, when you look at Pelephone's website, you see the difference in tariff between 5G and 4G. Of course, we manage our customer base in such a way that over time, we move customers over to 5G plans, and that contributes on average, around 8 shekels per subscriber per plan per month, not including VAT. This is something that we are very focused on going forward.

Tavy Rosner (Barclays): Okay, thanks. And last short one from me on yes. So yes has been losing money for quite a while now. I'm wondering, is there a plan for it to break even at some point down the road? Or are you comfortable with the ongoing losses, that it's part of the broader Bezeq Group, and you need them to generate revenues?

Tobi Fischbein: As you know, Tavy, we are very focused on progressing with the migration of yes' subscriber base from satellite to IPTV, which would deliver, along the road, but especially, from 2026 onward, significant reductions in both CapEx and OpEx. I think we have discussed several times what are our reasons behind that. I think that yes has successfully reduced the cash flow burn it had in previous years. This specific year it had some additional costs out there, but nothing significant, and it has not needed Bezeq to give it cash during the past two years. So, at the end of the day, yes

behaves quite independently on a financial basis.

Tavy Rosner (Barclays): Thanks for that, I'll go back to the queue. Thanks, Tobi.

Tobi Fischbein: Thanks, Tavy. Our next question it from Ondrej Cabejsek of UBS. Hi, Ondrej. Can you hear us?

Ondrej Cabejsek (UBS): Yeah, I can hear you it was muted before. Thank you for the presentation. I have two questions, around fiber. One is on the households, that you aim to pass, because the number has gone up quite significantly. And I think the assumption previously was that you'd be doing 80% of homes, which was around 2.1 million on a roughly 2.5. So, first of all, the definition clearly changed because now you're clearly saying that the total market is, kind of, 2.7. So, how does that definition change? Does that include businesses, for example, and simple households? And then, why is the upgrade so significant? Is that a result of you now assuming that no other operators apply or are successful in applying for the thing on economical areas, the subsidies? So just to clarify, first of all, the definition, and then your own targets within that definition. And then, related to that CapEx, because you are saying that you are now expecting CapEx to sales at around 19%, and roughly 1.7 billion shekels all the way through 2025, so just one year longer, higher CapEx to sales. So how do I reconcile the fact that you are doing so many more homes, but just one extra year of high CapEx, please? Thank you very much.

Tobi Fischbein: Thank you, Ondrej, for the question. In terms of fiber penetration, you are right. In the past, we said 2.5 million, but that was around 2025. Now we are saying 2.7 around 2027. If you remember, when we announced our initial penetration into the fiber deployment project, we said that we would cover 80% of Israeli households. Now, we have increased that to around 85%, on one hand. On the other hand, population growth in Israel is around 1.8% a year, so when you push this through 2027, you get more or less to the 2.7 million figure that we have released today. In terms of the CapEx to sales, we said that we would start coming down during 2025. Of course, increasing the number from 80% to 85%, and the fact that we have been able to deploy at a very good pace, allows us not to bring down that pace in the next two years, but actually want to bring forward the deployment that we would otherwise have had later on. So for us, we have the cash for that, business performance is strong, so we see no reason to delay what we can do earlier. The next question is from Jerry Dellis of Jefferies. Hi, Jerry.

Jerry Dellis (Jefferies): Hi, yes. Good afternoon, everyone. Thank you for the presentation. My first question is, in relation to regulation. I wondered if you could update us on what discussions you're having with the newly formed ministry? What do

you think are going to be the main debating points between yourselves and the government during 2023? And then, very specifically in relation to wholesale fiber rates. Is the 72 shekel per month wholesale rate on fiber lines up to 1 gigabits per second – is that now, sort of, set in stone? And what will be the duration on that regulatory agreement, please. Thank you.

Gil Sharon: Okay. So, I think that the new ministry has to form its internal management, and to form its agenda and work plan for the year. We know that they are working on it these days. We are trying to put cancellation of structural separation on that agenda, to be examined. We'll see what happens with that. In regards to your question about wholesale tariffs, first of all we must say that it is becoming less important. Because we have the IRU agreement with Partner, and Cellcom has a few days ago, announced that they have signed an IRU for the next three years with IBC. They will still buy from us something, probably on the rates. So there's not a lot of free market. But, to your question, the 72 shekels was voluntarily lowered by us as part of the negotiations for the approval of the IRU, as you recall. And it doesn't mean that when the final review of tariffs by the ministry that is expected by August or September, when they make their final decision on the tariffs with the consulting firm, they still might want to set new regulated prices that possibly could be lower than 72. However, as I said, it would not have, we believe, significant impact.

Jerry Dellis (Jefferies): Thank you. Could I just ask a question on something else, please. In relation to inflation. I'd be interested in the, sort of, inflation assumptions that are baked into your 2023 guidance. Perhaps if you could talk to us in qualitative terms about where the, sort of, inflationary pressure is within your cost base, and what mitigating actions you're able to take, in particular, in relation to raising prices? Thank you.

Tobi Fischbein: Thank you, Jerry. We first look at market rates and the expected inflation rate, that's what we have in in our guidance. It's around 3% in Israel. When we look at the impact on inflation, on the one hand it's on certain rent that we have across the Group, especially in Pelephone. But also in Bezeq Fixed-Line, those are the more important ones. But I would say that the greatest exposure is in our CPI-linked financial debt that we have at Bezeq Fixed-Line, some of which is hedged. We have taken certain measures to try to reduce our exposure. For example, to pay in advance certain, CPI-linked charges that we have with certain municipalities across the country. But other than that, no, we still remain exposed, especially through the financial debt, as I said before.

Jerry Dellis (Jefferies): Thank you. Then in terms of your ability to raise prices to mitigate?

Tobi Fischbein: Well, in the short term, as you know, especially in Bezeq Fixed-Line, many of our tariffs are regulated, so we cannot increase prices ourselves. In the rest of the Group we are in very competitive markets, so there is some upgrade on some of our tariffs. Not necessarily on the back of inflation, but part of the competitive dynamics. We've seen that at Pelephone in the cellular market. And in wholesale, I would say this is one area where, when Fixed-Line wholesale tariffs are updated, they are linked to the CPI, both for copper and for fiber. The IRU agreement with Partner also has some elements of linkage to inflation.

Jerry Dellis (Jefferies): Thank you.

Tobi Fischbein: You're welcome. Next question is from David Kaplan. Hi, David.

David Kaplan (Psagot): Hi, everyone. My first question is on Pelephone and on ARPU. When I take into account the – the prepaid subscribers that were removed from the subscriber count, I think you guys wrote in your report that that added 2 shekels to your ARPU. So then, when I compare on a year to year basis, ARPU is actually down, if I'm not mistaken. So, can you explain to me how the the different parts of what run through the ARPU, including roaming, because I know the holidays were all in the fourth quarter this year. And on top of that, additional 5G plans. How is that going to run through ARPU? Is it a tiny issue when it comes to the 5G plans? And when will we start to see an uptick? I understand also in the middle of this year and into the next two years after, with the interconnect down. So, kind of, how are we supposed to think about ARPU going forward?

Ilan Sigal: Hi, David. In the fourth quarter, we had a negative one-time accounting adjustment that we made on the ARPU. And we also had a Ministry of Education project that ended, that impacted the ARPU for this quarter. As you said, roaming and the transfer to 5G plans, are helping to increase ARPU, but what happened this quarter, is what I said - the one-time accounting adjustment, and the ending of the project with the Ministry of Education.

David Kaplan (Psagot): I understand the answer to that question. So then, when I think about ARPU going forward, and when I think the lower interconnect fees over the next couple of years, how are we supposed to think about service revenues going forward? Because, obviously, when subscribers and ARPU are a function of service revenue, it seems to me that we're looking at a downward trend.

Tobi Fischbein: No, not necessarily. Actually, we are looking at the same trends that we've benefited from in 2022. Overall, I don't look at a specific quarter, which may be influenced by seasonality, for obviously Q4 has less roaming than Q3, for example. Or

certain things like Ilan explained before, which actually have an impact mainly on the prepaid ARPU, which is, the area where we think it's not the basis of the company. When you look at service revenues going forward, we expect to see a couple of things in Pelephone. Number one is a slow but gradual increase in tariffs, we are seeing this throughout the market. Number two, the transition to 5G plans, which are a bit more expensive than 4G plans. And in roaming we have seen a significant recovery in 2022 versus 2019, especially on the consumer side. On the business side, we haven't seen the full recovery yet, we might see it in the future.

David Kaplan (Psagot): Okay. And then, just, my last question, on the IRU agreement with Partner. Has that already been taken up? Are we going to see that already in Q1? Or is it not playing out as quickly as originally expected?

Tobi Fischbein: You're asking in terms of the impact on our financial results?

David Kaplan (Psagot): Yeah.

Tobi Fischbein: So, you will start to see it gradually from Q1, definitely, because we have started that agreement. It will have a minor impact per quarter. But if we see that there is an accelerated pace in the usage of our network by them, then we can probably bring forward part of the revenues that we would otherwise recognize in the second, third and fourth year. So that's something that we would also expect to see in 2023. Throughout the year.

David Kaplan (Psagot): Okay. So can you give us an update as to where you are in terms of the number of lines they've taken.

Tobi Fischbein: Well, if you saw the presentation, on the slide on Fixed-Line take-up, you would see where we are as of today, in terms of wholesale lines and the change in wholesale lines, you see the significant take-up in the first two and a half months of the year. And that's coming mainly from the IRU agreement with Partner, which is partly offset by some other players.

David Kaplan (Psagot): Great. Okay. Thanks very much.

Tobi Fischbein: You're welcome. Next question from Siyi He of Citi. Good to see you.

Siyi He (Citi): Hi. Well, thank you very much for the presentation. And the opportunity to ask questions. I have three, please. And the first one, I was just wondering if you could comment on the competitive dynamics in the market just in Mobile, we see the churn has gone up a little bit. Just wondering if there are any changes in the market, or

it's just simply because of the disconnection of the prepaid. And a similar question for the Fixed as well. You have the IRU agreement that has been implemented. I'm wondering if you have seen any changes on the retail pricing after this. And my second question is on the International business. I'm just wondering if you could indicate where are we with this ISP transformation, and also, how many of those customers have been retained within the Bezeq Group. And then my final question, is just on the potential to increase the payout ratio to 70%, providing the ratings stay at the AA level. I was wondering, if there are any numbers we could look at, in terms of your financial stability to allow you to show that you are within that AA rating. Thank you.

Tobi Fischbein: Thank you Siyi for your questions. I suggest that Ran and Ilan perhaps discuss the competitive dynamics. Gil or myself will deal with Bezeq International, and I will speak about the dividend.

Ilan Sigal: In the last few quarters, we saw a decline in churn. What you said, regarding the increase in the fourth quarter is because of the removal of the 96 thousand prepaid customers. So that's the only reason for this quarter.

Ran Guron: Okay, this is Ran. I'll discuss fiber optics. So we've seen strong momentum for Bezeq fiber optics, you see take-up is going up, record-breaking figures for the fourth quarter, and you can calculate yourself the first quarter, which has a higher figure as well. And we do not see any obstacle from the IRU agreement with Partner. Partner hasn't yet published their results, so we'll have to see. But we have really strong momentum, both in IRU take-up and retail customers. I'll add something about ISP. We published that 47% of Bezeq Fixed-Line customers are getting ISP services from Bezeq Fixed-Line. So we are in a trend that soon the majority of our customers will receive full end-to-end service from Bezeq Fixed-Line. I'll let Tobi speak about Bezeq International.

Tobi Fischbein: Okay. So I will just add to that comment. We also announced in our annual report, that Bezeq International is down to 22% market share, which reflects the loss of about one-third of their consumer ISP customers. When you do the math, you will see that Bezeq actually has captured a more significant amount of ISP customers than Bezeq International lost. So, of course, many of them are coming from Bezeq International, but also from other firms. What we expect going forward is the continued decline in ISP consumer activity on behalf of Bezeq International, and resulting from that lower revenues, and on the other hand, we would expect to see also compensation from the expansion of the ICT activities and growth in all the services that we provide including CloudEdge, which is a company we acquired at the beginning of last year, but also organic growth as well. In terms of the third question on the dividend and the 70% aspiration, the Board has upgraded it from 50% to 60%, and has mentioned its

aspiration to go in the foreseeable future to 70%. We expect to keep reducing our debt, keep our ratings, as you mentioned, and with the financial performance that we have posted, assuming that we will be able to perform well on our guidance for 2023, there will be a discussion, most likely, about a year from now, about this issue. Any other questions?

Siyi He (Citi): Uh, no. Thank you very much.

Tobi Fischbein: Okay. Thank you. We have a follow-up question from Ondrej Cabejsek, from UBS.

Ondrej Cabejsek (UBS): Yes, I have three quick follow-ups, if I may, please. So one is, just on Jerry's question in terms of the CPI, impacting the regulated rates. I was wondering if that also counts for the fixed voice tariffs, that are, kind of, where we have a progression year by year, are they also changed to reflect the changing inflationary environment? That's one question. Second question, in terms of the spectrum CapEx return to – this is based from, kind of, rollout targets, if I understand correctly. Are there more, kind of, targets for you to – see in the future, to get CapEx returns, the same way you did in the fourth quarter in '22? And the third one was just on lease costs, please. So we've seen some inflation on costs, even though, I think in sorts of the one we expect that may be with upgrades of copper into fiber, there'll be, maybe, less real estate, too, and with your real estate sales there'll be less less lease costs going into that part of the business. If you could explain where this is coming from and how you expect, you know, lease costs to evolve going forward, please. Thank you.

Tobi Fischbein: So, on the first part of your question, on the Fixed-Line, most of the tariffs are not CPI linked, at least not in the short term. In terms of the impact on the CapEx, on the spectrum – this is just a timing difference between Q3 and Q4. If you remember, Pelephone paid in Q3, 88 million shekels, and now got back 74 million shekels in Q4. So when you look throughout the year, you will see that CapEx remains more or less, at a stable trend. Going forward, we don't expect any significant payments such as the one Pelephone received in Q4. Generally speaking, in terms of leases, some of those increases come from Pelephone, which has, quite significant leases, especially in relation, to their towers, and to their sites. That's even larger than Bezeq Fixed-Line. But we see an increase due to inflation across the Group. Thank you, Ondrej. We have a question from Sabina, from Leader. Hi, Sabina.

Sabina Levi: Hi. Good afternoon. First of all, congratulations on the results. I have two questions. The first one is regarding Fixed-Line. I just wanted to understand, regarding the potential of the penetration rate. Now, currently, your customer base is approximately 20% of the total homes passed. So I was wondering if you can share

with us what is your target or ambitions for the mid to long-term, how do you see the penetration rate of the paying customers? And, the second question is about yes. So, on the one hand, we are seeing higher penetration of Sting, there are more Sting customers compared to the traditional customers. And we know that Sting customers usually have lower ARPU. On the other hand, we see the total ARPU holding relatively well. So I'm just trying to understand what's going on there, and if we should see the same trends going forward, or we should see sharper decreases in the ARPU for yes. Thank you.

Ran Guron: Hi, Sabina. I'll take the first one. First of all, we do not release the future of the take-up or penetration rate. But, as you can see for yourself, 20% of our current retail internet customers are in fiber as of now. And if you take the figure for the first quarter, it's even more than that. So you can make the calculation yourself, and see that we still have a lot of potential to grow. And second, if we continue in this pace, we'll reach a significant figure out of this one million retail customers, approximately, in two to three years. But, you should made the calculation yourself. So, sorry for that.

Ilan Sigal: Hi, Sabina, how are you? I'll take the yes question. We have 579 thousand customers with yes, and 107 thousand are Sting TV customers, so it's 18% of the customer base. Most of the customers are on the yes premium product, and most of our customers still want a major plan that has the whole content and not the Sting TV limited content and the small packages. We see more and more of our customers that want the yes plus package, it's the premium one, and also, the customers that are still on satellite, they take the yes premium package.

Tobi Fischbein: Thank you. We have a question from Elad Solomon, from Hatzavim Fund, Elad.

Elad Solomon (Hazavim Fund): Hi. Thank you for the result and the presentation. I have a quick question about the ARPU in Pelephone. Regarding the roaming tariff, how do you see the trend from alternative solutions, like eSIM, or any other alternative solution that will, maybe, reduce the roaming revenues?

Ilan Sigal: First of all, we see that after COVID, Israelis are getting back to travel, and they travel a lot, and they take Pelephone packages, roaming packages. There are also options that are already in the market for a few years, like physical SIM, and also an eSIM, and we don't see any effect in the short term. Probably in the long term we'll see some effect. But we also see opportunities in the area of eSIM in the next few years.

Elad Solomon (Hazavim Fund): Can – can you elaborate on that? I mean, what do you mean, you see potential?

Ilan Sigal: We see that when the trend will be higher, then more and more people that travel abroad will take eSIM, we are looking at some technologies also. I can't elaborate right now, but we are working on it.

Elad Solomon (Hazavim Fund): Okay. So in general, I can summarize that there is no risk in terms of the roaming, about the ARPU?

Ilan Sigal: In the short term, we don't see an effect right now.

Elad Solomon (Hazavim Fund): Okay. Thank you very much.

Tobi Fischbein: Thank you, Elad. If there are no further questions at this time, I would like to thank you all for taking the time to join us today. Should you have any follow-up questions please feel free to contact our investor relations department. We look forward to speaking to you on the first quarter 2023 earnings call. Thank you.

[END OF TRANSCRIPT]